

ROTHERHAM BOROUGH COUNCIL – REPORT TO CABINET

1.	Meeting:	Cabinet
2.	Date:	4th February 2015
3.	Title:	Magna Trust Loan Renewal
4.	Directorate:	Resources

5. Summary

This report seeks Cabinet approval for the Council to provide a one year loan facility to the Magna Trust of up to £250,000. The existing £250,000 loan will be repaid by the 31st March 2015, before the new loan is taken out. In accordance with her delegated powers, an urgent decision was taken by the Chief Executive to provide an immediate additional loan facility of £100,000 to the Magna Trust. This represents an increase of up to £100,000 to the existing one year loan facility of £250,000. Information relating to the financial and business affairs of Magna is attached as Appendix A, which is to be considered in the exempt part of the meeting.

6. Recommendations

Cabinet is asked to:

- 1) Approve a short term Council loan facility to the Magna Trust of £250,000 on the terms specified in section 8 of this report.**
- 2) Note the decision taken by the Chief Executive on 16th January 2015, in accordance with her delegated powers, to provide Magna with an immediate additional £100,000 loan facility, to be drawn down by Magna on demonstration of need.**
- 3) Approve the appointment of an independent consultant to undertake a review of Magna's business, to help to strengthen the Magna business plan, and to assess the future viability of Magna.**

7. Proposals and Details

Background to Magna

The Council is one of 3 Members of the Magna Trust, together with the Rotherham Chamber of Commerce and The Stadium Group. The various funders involved in Magna; the Big Lottery, DCLG, Yorkshire Forward, Lombard Property Facilities Limited, the Royal Bank of Scotland and Rotherham MBC are bound together by an Inter-Creditor Deed, which determines the priority rights of the various parties in the event of Magna being wound up. The Council has priority rights in respect of the proceeds of the sale of the Project Office, which sits at the front of the site, bordering Sheffield Road, and has a current valuation of approximately £200,000. The involvement of Lombard and RBS stems from a complex lease/lease-back arrangement that Magna entered into about 10 years ago. The Council sits with the other creditors, after the interests of the other parties to the inter-creditor deed have been settled, in terms of its remaining rights in the event of dissolution.

Rotherham MBC's Financial Support to Magna

The Council has supported Magna since its inception, and has provided it with financial support during periods of difficulty. In 2006 the Council granted Magna a £300,000 fifteen year long term loan, at an interest rate of base rate plus 2%, repayable at £5,000 per quarter plus interest. £195,000 is currently outstanding on this long term loan, and Magna have been on an agreed repayment holiday on this loan since 1st April 2013. This loan is secured on the Project Office.

In 2008, following the onset of the recession, the Council provided Magna with an unsecured one year working capital facility. This is reviewed annually by Cabinet, a sum of £250,000 being agreed in March 2014. Without this facility Magna would not be able to meet its financial obligations and would be forced to close. An additional unsecured £80,000 bridging loan facility was agreed in January 2014. Discussions are taking place with Magna to agree a repayment profile for the bridging loan.

The table below shows the outstanding loans that Magna has with the Council.

Type of Loan	Amount Outstanding as at December 2014
Long Term	£195,000
Short Term Annual Cash Flow	£250,000

Short Term Car Park Sale – Bridging Loan	£78,081
Total	£523,081

All loans are at base rate plus 2%, i.e. 2.5% currently.

Decision taken by the Chief Executive acting under her delegated powers

Magna's financial position remains fragile, and the business has identified a potential cash shortfall of up to £100,000 before the end of March 2015, with an immediate cash requirement to fund staff salaries on the 23rd January 2015. Under the terms of their constitution Magna are not allowed to go overdrawn. Whilst they are able to seek bank finance, their financial position is such that even if they were able to secure a bank loan/overdraft facility, which is unlikely, it would be on terms less favourable than the Council could offer. Acting under her delegated authority, the Chief Executive approved an additional immediate loan facility of £100,000 to Magna on the 16th January 2015, in order that Magna was able to pay its staff salaries. Magna need to demonstrate a cash flow need, in order to draw down against this facility.

Additional financial support to be provided to Magna and next steps

On the basis of current cash flow forecasts, Magna will require an increase in their facility from £250,000 to up to £350,000. The additional £100,000 facility approved by the Chief Executive is part of this £350,000. Under the current loan arrangements with Magna, the existing £250,000 loan will be repaid, with outstanding interest of £6,250 on the 31st March 2015. Subject to demonstrating need, a facility of up to £250,000 will be made to Magna on the 1st April 2015, giving them a loan facility of up to £350,000.

There are a number of potential opportunities for Magna to generate income, which could be used to support the business moving forward and enable them to reduce their liabilities to the Council. These are identified in Appendix A, which also provides information on Magna's current trading position. In addition, there are other opportunities for the Council to provide financial support to Magna. The School Effectiveness Programme was previously hosted by Magna, but has in recent years been held at the New York Stadium. This business was previously worth about £70,000 in income to Magna. Even a reduced programme in 2015/16 would be significant for Magna. Magna are also keen to explore with the Council the potential for a hotel on site, which will enable them to drive forward with the conference business.

As a condition of providing them with a loan facility of up to £350,000 Magna will be required to develop and demonstrate that they have a sustainable business model for the facility, within three months of this approval being

granted. Magna will be supported in this process by Council officers from within RIDO and Finance. There will be a requirement for an independent review of this business plan to be procured by Magna, to give the Council confidence that it can be delivered. As part of this approach, it is recommended that the Council, as a Director of the business, increases its Board involvement so that it can shape the future direction of Magna and its position in the Borough.

As outlined in Appendix A, there are a number of potential windfall income opportunities for Magna at present, if any of these materialise, the income generated will allow Magna to reduce its loan obligations to the Council and enable it to invest in the business. Increasing the Council's financial support will protect its existing liabilities to Magna to enable them to develop a sustainable business model moving forward, which if successful, would enable it to reduce its reliance on Council financial support in the future.

The trustees of the company are acutely aware of the challenges that the business faces, but are confident that the business has a long term future. Once the economic environment improves, they believe Magna can become a profitable business.

Magna is a key facility for the Borough both as a tourist attraction, education and training facility, conference and event space and local employer. Magna provides employment for over 80 mainly local workers, many of them young people. It also provides posts for volunteers, apprentices and placements from local schools and FE colleges. The facility provides significant social and cultural benefits for the Borough, and hosts events which have a regional and national significance. It is now the venue for the annual Rotherham Beer Festival, which continues to increase in popularity, and hosts regular boxing events, including ones which have been televised on Channel 5, as well as regular conference, marketing and music events. The venue provides significant benefits to the local economy through purchasing from local suppliers and events generate hotel bed nights, coach and taxi journeys.

Magna offers many flexible spaces within the building, and is able to respond at short notice to requests for space. It is used for Borough elections and has been used to house schools at short notice during building works. The building can also be used to house significant numbers of displaced people in the event of a Borough emergency situation.

8. Finance

Magna have requested an increase in their working capital loan facility to a maximum of £350,000 to run for a further year, from 1st April 2015. Without this support Magna will be unable to continue to trade. In accordance with her delegated powers, an urgent decision was taken by the Chief Executive to provide an immediate loan facility of £100,000 to the Magna Trust, as part of this £350,000 loan facility.

It is therefore recommended that a maximum £350,000 loan facility be granted at a commercial rate of bank base rate + 2%. It is recommended that

the terms and conditions of the loan incorporate obligations on Magna to repay all or part of the loan, in the event that they are successful in bringing additional income into the business, either through sales or through its trading activities. A further condition of the loan is that Magna will be required to provide a deliverable, independently verified business plan within 3 months of this approval being granted. This will be the subject of a further report to Cabinet, providing options regarding the way forward for Magna.

The Council has a charge over the Magna Project Office as security on its long term loan. Asset Management have undertaken a desk top exercise to determine a value for the property. As a result of the depressed state of the market in the Templeborough area, and the large amount of empty new office accommodation in the area, the property has been assessed as having a current value of between £190,000 and £200,000. The terms of the existing security arrangements allow the Council to consolidate all of its loans, however, given the valuation more or less equates to the £195,000 outstanding on the long term loan, the Council's short term loan is unsecured.

The Council has begun discussions with Magna and their legal representatives, DLA Piper, to seek changes to the Magna inter-creditor deed. This is the legal agreement that determines the relative rankings of the various organisations and their successor bodies, who funded the Magna development, including the Big Lottery Fund, HCA, DCLG and Yorkshire Forward. The aim is to remove these bodies, subject to their agreement, from the Inter-Creditor deed, in order that the Council can secure the loan against the Magna property. As the appropriate contacts have now been located by the process to release part of the car park from the Inter-Creditor Deed, it is anticipated that the wider changes to the Inter-Creditor Deed can be done relatively quickly, subject of course to stakeholder agreement. However, the process is still likely to take a number of months and would result in partners incurring legal fees, which would be required to be reimbursed by Magna, estimated to be around £20,000. This could potentially be funded from the Council loan.

9. Risks and Uncertainties

The success of this financial package is dependent upon Magna's ability to develop a sustainable business model in 2015/16 and beyond and to bring additional income into the business as outlined. Although showing signs of improvement, the current trading environment remains challenging. On this basis Magna's trading position remains vulnerable. However, without the Council's ongoing support the business will cease to trade.

10. Policy and Performance Agenda Implications

The Magna conference and events project supports the aims of:

- Rotherham Corporate Plan
- the Tourism plan
- the South Yorkshire Destination Partnership.

11. Background Papers and Consultation

Cabinet Report – 28th March 2012

Cabinet Report - 27th March 2013

Cabinet Report – 19th March 2014

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